



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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January 12, 2010

TO: Supervisor Gloria Molina, Chair
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe *Wendy L. Watanabe*
Auditor-Controller

SUBJECT: **STIRLING ACADEMY, INC. DBA STIRLING BEHAVIORAL HEALTH
INSTITUTE CONTRACT REVIEW – A DEPARTMENT OF MENTAL
HEALTH SERVICE PROVIDER**

We completed a program and fiscal contract compliance review of Stirling Academy, Inc. dba Stirling Behavioral Health Institute (Stirling or Agency), a Department of Mental Health (DMH) service provider.

Background

DMH contracts with Stirling, a private for profit organization that provides services to clients in Service Planning Area 2. Services include interviewing program clients, assessing their mental health needs and developing and implementing a treatment plan. The Agency's headquarters is located in the Third District.

DMH paid Stirling a negotiated fixed rate between \$1.86 and \$4.08 per minute of staff time (\$111.60 to \$244.80 per hour) for services or approximately \$3 million per year for Fiscal Years (FY) 2007-08 and 2008-09.

Purpose/Methodology

The purpose of our review was to determine whether Stirling complied with its contract terms and appropriately accounted for and spent DMH Program funds providing the services outlined in their County contract. We also evaluated the adequacy of the

Agency's accounting records, internal controls and compliance with federal, State and County guidelines. In addition, we interviewed Agency staff.

Results of Review

Stirling does not appear to be financially viable. On Stirling's most recent audited financial statements dated June 30, 2008, Stirling reported an operating loss of \$313,359. Although Stirling has not maintained adequate working capital, Stirling met their financial obligations and appeared to provide adequate services to their clients. However, to ensure that Stirling continues to provide adequate services, Stirling needs to immediately develop a corrective action plan.

In addition, Stirling did not always comply with the County contract requirements and billed DMH \$90,937 in questioned costs. Specifically, Stirling:

Program Review

- Billed \$970 in unsupported and unallowable service minutes.
- Did not complete some elements of the participants' Assessments and Informed Consent in accordance with the County contract.

Fiscal Review

- Charged \$44,527 in unsupported payroll expenditures for the Associate Director during FY 2007-08. Specifically, the Associate Director is the wife of the Executive Director and the co-owner of the Agency. Additionally, she did not complete a timecard or time report to support her payroll expenditures.
- Charged \$28,750 in unsupported payroll expenditures for their Corporate Counsel during FY 2007-08.
- Charged DMH \$12,488 for legal costs related to a dispute with the County of Los Angeles. The County contract does not allow agencies to use program funds for their claims or appeals against the County.
- Charged DMH \$2,530 for unsupported travel expenditures. Agency management indicated that the unsupported expenditures were to visit their Corporate Counsel in Sacramento (the Executive Director's son) and the rental cars for the Associate Director to attend DMH meetings when her personal vehicle had problems.
- Charged DMH \$1,672 for unsupported auto insurance and gasoline charges related to the Executive Director and the Associate Director's personal vehicles. The

Associate Director indicated that they were reimbursed for using their personal vehicles to attend DMH meetings.

We have attached the details of our review along with recommendations for corrective action.

Review of Report

We discussed the results of our review with DMH and Stirling. DMH indicated that they are in agreement with our findings and recommendations and will work with Stirling to resolve the questioned costs. In Stirling's attached response, the Agency agreed to repay \$970 and implement some of our recommendations. However, Stirling disagreed with a number of our findings and recommendations.

Specifically, Stirling's response indicated that the legal expenditure of \$12,488 was not over a dispute with DMH. However, documentation provided indicated that the firm was to represent Stirling in connection with a dispute with the County of Los Angeles and State of California DMH.

In addition, Stirling challenges the validity of the payroll questioned costs and appeals for an official review along with travel and auto expenditures. However, Stirling agreed to begin documenting payroll costs in the future.

Due to the sensitive and personal information provided in their attachments, we only attached their response letter to our report.

We thank Stirling management for their cooperation and assistance during this review. Please call me if you have any questions or your staff may contact Don Chadwick at (213) 253-0301.

WLW:MMO:JET:DC:EB

Attachment

c: William T Fujioka, Chief Executive Officer
Dr. Marvin J. Southard, Director, Department of Mental Health
Dr. Iraj Broomand, Board President and Executive Director, Stirling
Public Information Office
Audit Committee

**DEPARTMENT OF MENTAL HEALTH
STIRLING ACADEMY, INC. DBA STIRLING BEHAVIORAL HEALTH INSTITUTE
FISCAL YEARS 2007-08 AND 2008-09**

BILLED SERVICES

Objective

Determine whether Stirling Academy, Inc. dba Stirling Behavioral Health Institute (Stirling or Agency) provided the services billed in accordance with their contract with the Department of Mental Health (DMH).

Verification

We selected 35 billings totaling 2,261 minutes from the 171,308 service minutes of approved Medi-Cal billings for October and November 2008. We reviewed the Assessments, Client Care Plans and Progress Notes maintained in the clients' charts for the selected billings. The 2,261 minutes represent services provided to 15 program participants.

Results

Stirling billed DMH for 254 service minutes that were unallowable or undocumented totaling \$970. Specifically, Stirling billed:

- 224 minutes for unallowable services billed for the Medication Support Services. Specifically, the Agency's nurse sat with their psychiatrists during clients' medication visits. Agency management indicated that the nurse's presence was necessary due to their psychiatrists' poor bedside manners. However, since the practice was primarily for assisting the psychiatrists, the nurse's routine medication visits are not reimbursable. DMH management concurred with our finding and indicated that the nurse's routine medication visits should not be billed to DMH since the service was not medically necessary. Subsequent to our review, Stirling had stopped billing for the nurse's routine medication visits and only bills for their service when clinically warranted. In addition, Agency management indicated that this has been their practice since 2006.
- 30 minutes for undocumented Targeted Case Management Services.

In addition, the Agency did not always complete some elements of the Assessments and Informed Consent in accordance with the County contract requirements.

Assessments

Stirling did not adequately describe the symptoms and behaviors exhibited by the client to support the Agency's clinical diagnosis for five (33%) of the 15 clients sampled on

their Assessments. An Assessment is a diagnostic tool used to document the clinical evaluation of each client and establish the client's mental health treatment needs. The County contract requires agencies to follow the Diagnostic and Statistical Manual of Mental Disorders (DSM) when diagnosing clients. The DSM is a handbook published by the American Psychiatric Association for mental health professionals, which lists different categories of mental disorder and the criteria for diagnosing them.

Informed Consent

Stirling did not document Informed Consent in the client's chart for one (11%) of nine clients sampled, in which the client received treatment with psychotropic medication. Informed Consent is the client's agreement to a proposed course of treatment based on receiving clear, understandable information about the treatments' potential benefits and risks.

Recommendations**Stirling management:**

1. **Repay DMH \$970.**
2. **Work with DMH to determine the amount billed for the Medication Support Services for the nurse's routine medication visits since December 2006 and repay DMH for the determined amount.**
3. **Ensure that Assessments are completed in accordance with the County contract.**
4. **Ensure that Informed Consent is obtained and documented in the client's chart prior to treatment with psychotropic medication.**

STAFFING LEVELS**Objective**

Determine whether the Agency maintained the appropriate staffing ratios for applicable services.

We did not perform test work in this section, as the Agency did not provide services that require staffing ratios for this particular program.

Recommendation

None.

STAFFING QUALIFICATIONS

Objective

Determine whether Stirling's treatment staff possessed the required qualifications to provide the services.

Verification

We reviewed the California Board of Behavioral Sciences' website and/or the personnel files for 13 of the 24 Stirling Treatment staff who provided services to DMH clients during October and November 2008.

Results

Each employee in our sample possessed the qualifications required to provide the services billed.

Recommendation

None.

FINANCIAL VIABILITY

Objective

Determine whether Stirling is financially viable and maintains sufficient working capital to operate the DMH Program.

Verification

We interviewed Agency management and reviewed the Agency's financial statements and accounting records.

Results

As of June 30, 2008, Stirling reported an operating loss of \$313,359 on their audited financial statements. Stirling needs to submit a written plan to DMH on how they will improve their financial condition, including a plan to maintain sufficient working capital.

Recommendation

- 5. Stirling management submit a written plan to DMH to improve their financial condition including a plan to maintain sufficient working capital to meet current liabilities.**

CASH/REVENUE**Objective**

Determine whether cash receipts and revenue were properly recorded in the Agency's financial records and deposited timely in their bank account. In addition, determine whether there are adequate controls over cash and other liquid assets.

Verification

We interviewed Stirling management and reviewed the Agency's financial records. We also reviewed the Agency's December 2008 bank reconciliations for two bank accounts.

Results

Stirling maintained adequate controls to ensure that revenue was properly recorded and deposited in a timely manner.

Recommendation

None.

COST ALLOCATION PLAN**Objective**

Determine whether Stirling's Cost Allocation Plan is prepared in compliance with the County contract and the Agency used the Plan to appropriately allocate shared program expenditures.

We did not perform test work in this section as Stirling only operates the DMH Program. Therefore, the Agency did not allocate expenditures.

Recommendation

None.

EXPENDITURES**Objective**

Determine whether program expenditures were allowable under the County contract, properly documented and accurately charged to the DMH Program.

Verification

We reviewed financial records and documentation to support 31 non-payroll expenditure transactions totaling \$131,900 charged to the DMH Program between July 2007 and December 2008.

Results

Stirling charged DMH \$16,690 in questioned costs. Specifically, Stirling charged DMH:

- \$12,488 for legal services related to a dispute with the County of Los Angeles regarding licensure/certification requirements and a dispute involving their Cost Reports. The County contract does not allow agencies to use program funds for claims or appeals against the County.
- \$1,672 for auto insurance and gasoline charges related to the Executive Director and the Associate Director's personal vehicles. The Associate Director indicated that they were reimbursed for using their personal vehicles to attend DMH meetings. However, Agency management was not able to provide documentation to support the expenditures.
- \$1,677 for airfare to Sacramento from Burbank. Agency management indicated that the Executive Director frequently visited their Corporate Counsel in Sacramento. However, Stirling did not provide documentation to support the purpose or results of the trips.
- \$853 for car rental costs. Agency management indicated that the Associate Director needed rental cars to attend DMH meetings when her personal vehicle had problems. However, Stirling did not provide an explanation why the cars were rented from the Burbank airport when the Agency was located in the Westlake Village.

During the contract year, DMH pays Stirling based on negotiated rates for their services. At the end of the contract year, if the Agency's revenues exceed the actual expenditures on their Cost Report, excess funds are subject to partial recovery by the County in accordance with the County contract.

Recommendations**Stirling management:**

6. **Revise their Fiscal Year (FY) 2007-08 Cost Report to reduce the reported program expenditures by \$12,488 in unallowable expenditures and repay DMH for any excess amounts received.**

7. Provide supporting documentation for the \$4,202 (\$2,530 + \$1,672) in unsupported costs or reduce their FY 2007-08 Cost Report.
8. Ensure that program expenditures are supported by adequate documentation.
9. Ensure that only allowable program expenditures are billed to DMH.

FIXED ASSETS

Objective

Determine whether fixed assets depreciation costs charged to DMH were allowable under the County contract, properly documented and accurately billed.

Verification

We interviewed staff and reviewed the Agency's financial records related to fixed assets. In addition, we reviewed items with depreciation costs totaling \$3,163 that the Agency charged to the DMH Program in FY 2007-08.

Results

The depreciation costs charged to DMH were allowable, properly documented and accurately billed.

Recommendation

None.

PAYROLL AND PERSONNEL

Objective

Determine whether payroll expenditures were appropriately charged to the DMH Program. In addition, determine whether personnel files are maintained as required.

Verification

We traced the payroll expenditures for 24 employees totaling \$71,003 to the payroll records and time reports for the pay period ending December 15, 2008. We also interviewed ten employees and reviewed personnel files for 24 employees.

Results

Stirling charged DMH \$73,277 in unsupported and inappropriate payroll expenditures for two employees. Specifically, Stirling charged DMH:

- \$44,527 in unsupported payroll expenditures for the Associate Director during FY 2007-08. The Associate Director who is the wife of the Executive Director and the co-owner of the Agency did not complete a timecard or time report to support her payroll expenditures. Subsequent to our review, Stirling provided a listing of the Associate Director's duties and activities. However, the listing did not include documentation to support the work performed or indicated when each listed activity was performed. The County contract requires that compensation to the Agency's directors, officers, or the immediate families should be for the actual personal services rendered rather than a distribution of earnings in excess of costs and must be supported by personnel activity reports.
- \$28,750 in unsupported payroll expenditures for their Corporate Counsel's salary during FY 2007-08. The Corporate Counsel is the son of the Executive Director and has his own legal practice in Sacramento. The Corporate Counsel did not complete a timecard or a time report to support his salary. In addition, the Agency did not maintain the Corporate Counsel's job description in his personnel file. Stirling provided a listing of work performed by the Corporate Counsel during the review period. However, the listing did not include documentation to support the work performed or the actual hours worked for the Agency. Agency management indicated that providing a specific list of the work performed violates attorney-client privilege.

As indicated earlier, DMH pays Stirling based on negotiated rates for their services. At the end of the contract year, if the Agency's revenues exceed the actual expenditures on their Cost Report, excess funds are subject to partial recovery by the County in accordance with the County contract.

Recommendations**Stirling management:**

10. **Provide supporting documentation for the \$73,277 (\$44,527 + \$28,750) in unsupported costs or reduce their FY 2007-08 Cost Report and repay DMH for any excess amounts received.**
11. **Ensure that payroll expenditures are supported by timecards or time reports.**

COST REPORT

Objective

Determine whether Stirling's FY 2007-08 Cost Report reconciled to the Agency's financial records.

Verification

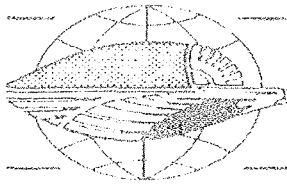
We traced the Agency's FY 2007-08 Cost Report to the Agency's general ledger.

Results

The total Agency expenditures listed on Stirling's Cost Report reconciled to the Agency's accounting records. However, as indicated above, the Agency over billed DMH for unsupported and unallowable expenditures during FY 2007-08.

Recommendation

- 12. Stirling management ensure that the Agency's Cost Report contains allowable and supported expenditures.**



Stirling
Behavioral Health Institute

November 24, 2009

Wendy L. Watanabe
Auditor-Controller
500 West Temple Street, Room 525
Los Angeles, CA 90012-3873

Dear Ms. Watanabe,

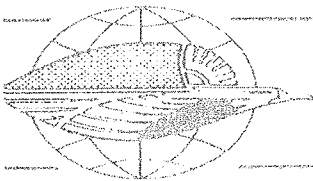
Attached is Stirling Academy, Inc.'s (dba Stirling Behavioral Health Institute) response to your letter regarding the Department of Mental Health's contract review. Much of it is information previously provided to Susan Kim of the auditor-controller's office. If more documentation is needed, we will be happy to provide it at your request.

Sincerely,

A handwritten signature in cursive script, appearing to read "Iraj Broomand, Ph.D.".

Iraj Broomand, Ph.D.
Executive Director

cc Eva Carrera
 Susan Kim



Stirling
Behavioral Health Institute

November 24, 2009

To: Wendy L. Watanabe, Auditor-Controller

CC: Eva Carrera, Section Chief, Los Angeles County Department of Mental Health
Susan Kim, Principle Accountant-Auditor

Subject: Reply to Auditor-Controller Audit of February, 2009

Billed Services

Auditor's Statement

Nurse participated in Med Clinic visits along with staff psychiatrist. Auditors deemed, and DMH management concurred, that nurse's "routine medication visits" should not be billed to DMH as it was not medically necessary. Stirling has stopped billing for the nurse's routine medication visits and only bills when clinically warranted.

Assessments/Informed Consent – Stirling did not always complete some elements of the Assessments and Informed Consent in accordance with County contract requirements.

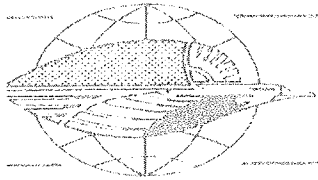
Auditor's Recommendations:

1. Repay DMH \$970.
2. Work with DMH to determine the amount billed for the Medication Support Services for the nurse's routine medication visits since December 2006 and repay DMH for the amount.
3. Ensure that Assessments are completed in accordance with the County contract.
4. Ensure that Informed Consent is obtained and documented in the client's chart prior to treatment with psychotropic medication.

Stirling's Response to items above:

1. Stirling agrees to repay DMH \$970.
2. While it was explained to Stirling that each audit team may look at different items during its audits and may find different issues than past audits, it seems reasonable for Stirling to have assumed its practice of the nurse attending medication visits and billing was acceptable as the practice was not questioned in the past. As noted in the Auditor's comments, Stirling halted the practice immediately in February 2009 when the audit team pointed out this issue. Stirling would have halted the practice sooner had other auditors made the same claim.

Dr. Dawson also saw these medication clients to follow up on medication side effects and spent time with the clients on things the psychiatrists don't always have time for. Stirling would be willing to adjust Dr. Dawson's billing from the medication rate to the therapy rate for her services during the audit period.



Stirling
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3. Stirling had trainings with all clinical staff immediately following the February 2009 audit to ensure Assessments are completed in accordance with the County contract and in a timely manner.
4. Stirling had trainings with all clinical staff immediately following the February 2009 audit to ensure that Informed Consent is obtained and documented in the client's chart prior to treatment with psychotropic medication.

Staffing Levels

There was no review by the Auditors. Stirling does not provide services that require specific staffing ratios. No action required by Stirling.

Staffing Qualifications

All employees sampled possess the required qualifications to provide the billed services. No action required by Stirling.

Financial Viability

Auditor's Statement

Stirling's audited financial statements as of June 30, 2008 show a deficit of \$357,121. Although Stirling has not maintained adequate working capital, Stirling met their financial obligations and appeared to provide adequate services to their clients.

Auditor's Recommendations:

5. Stirling management submit a plan to DMH to improve their financial condition including a plan to maintain sufficient working capital to meet current liabilities.

Stirling's response to item above:

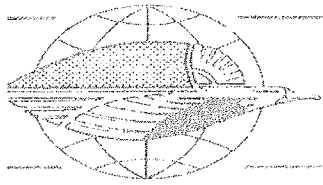
5. Stirling meets monthly with its Section Chief, Eva Carrera, and reviews its business plan. These meetings have been happening for over 20 months. As the Sector Chief has repeated indicated, Stirling's performance has improved significantly in that time. Stirling believes these meetings meet the Auditor's recommendation. While Stirling is registered by the State as a non-profit organization, Stirling has taken steps to obtain non-profit status by the IRS which would allow us to do fund raising.

Cash/Revenue

Stirling's management, financial records, and December 2008 bank reconciliations were reviewed. Stirling maintains adequate controls. No action required by Stirling.

Cost Allocation Plan

Stirling only operates the DMH program, so no test in this area was performed. No action required by Stirling.



Stirling
Behavioral Health Institute

Expenditures

Auditor's Statement

Auditors reviewed Stirling's financial records and documentation. There were 31 non-payroll expenditure transactions reviewed. Those expenditures totaled \$131,900. Of that amount, \$16,690 was deemed questionable:

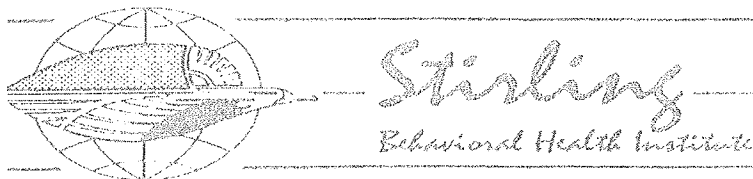
- \$12,488 for legal costs related to a dispute with the County of Los Angeles. The County contract does not allow agencies to use program funds for claims or appeals against the County.
- \$2,530 for unsupported travel costs (\$1,677 for airfare to Sacramento and \$853 for car rental from Burbank Airport). Air travel was to visit corporate counsel; rental cars were for the Associate Director to travel to DMH meetings while her personal car was having problems. Stirling did not provide documentation to support the purpose or results of the trips and why cars were rented at the airport when the agency is located in Westlake Village.
- \$1,672 for auto insurance and gasoline charges related to the Executive Director and Associate Director's personal vehicles. Stirling was not able to provide documentation to support its claim that vehicles were used to attend DMH meetings.

Auditor's recommendations

6. Revise the FY 2007-08 Cost Report to reduce the reported program expenditures by \$12,488 in unallowable expenditures and repay DMH for any excess amounts received.
7. Provide supporting documentation for the \$4,202 (\$2,530 travel costs and \$1,672 for auto expenses) or reduce the FY 2007-08 Cost Report.
8. Ensure that program expenditures are supported by adequate documentation.
9. Ensure that only allowable program expenditures are billed to DMH.

Stirling's response to items above

6. This expense was not over a dispute with the Department of Mental Health, neither was there litigation; it was consultation on the possibility of correcting errors caused by the Department without resorting to litigation. Stirling challenges the validity of this item and appeals for an official review. Stirling will provide further documentation if required.
7. The car was rented when the Executive Director returned from meetings in Sacramento and then used by the Associate Director for agency business while her car was being repaired after being totaled an accident in the line of duty. Stirling challenges the validity of this item and appeals for an official review. Stirling will provide further documentation if required.
8. Since the preliminary audit results were given to Stirling in February 2009, all requests for payment now must contain sufficient documentation to meet an audit's requirements.
9. Since the preliminary audit results were given to Stirling in February 2009, any questionable requests for payment are researched to ensure it meets DMH guidelines for allowable program expenditures.



Fixed Assets

Auditors determined that fixed assets depreciation costs charged to DMH were allowable, properly documented and accurately billed. No action required by Stirling.

Payroll and Personnel

Auditor's Statement

Auditors worked to determine whether payroll expenditures were appropriately charged to the DMH program. Ten employees were interviewed and personnel files for 24 employees were reviewed. Stirling charged DMH \$73,277 in unsupported and inappropriate payroll expenditures for the Associate Director and the Corporate Counsel.

The Associate Director, co-owner and Executive Director's wife, had \$44,527 in unsupported payroll expenditures for FY 2007-08. She did not have a time report or completed time card to support the expenditure. Subsequent to the Auditor's review, Stirling provided a listing of the Associate Director's duties and activities. However, the listing did not include documentation to support the work performed nor indicate when each listed activity was performed. The County contract requires that compensation to the Agency's directors, officers, or the immediate families should be for the actual personal services rendered rather than a distribution of earnings in excess of costs and must be supported by personnel activity reports.

The Corporate Counsel, the Executive Director's son, had \$28,750 in unsupported payroll expenditures for FY 2007-08. Corporate Counsel has his own legal practice in Sacramento. He did not complete a timecard or a time report to support his payroll expenditures. Stirling did not maintain the Corporate Counsel's job description in his personnel file. Stirling provided a listing of work performed by the Corporate Counsel during the review period. However, the listing did not include documentation to support the work performed or the actual hours worked for the agency. Stirling's management indicated that providing a specific list of the work performed violates attorney-client privilege.

Auditor's recommendations

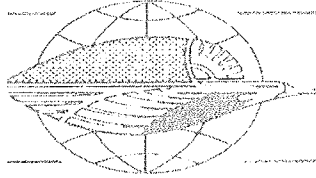
10. Provide supporting documentation for the \$73,277 (\$44,527 and \$28,750) in supported payroll costs or reduce their FY 2007-08 Cost Report and repay DMH for any excess amounts received.
11. Ensure that payroll expenditures are supported by timecards or time reports.

Stirling's response to items above

10. Stirling challenges the validity of this item and appeals for an official review. Further documents will be provided should it be required.

Attached to this document are the Associate Director's doctoral diploma, resume, and list of duties and activities.

Stirling has already provided documentary support for corporate counsel's 2007-2008 activities. Counsel has informed us that providing a specific list violates attorney-client privilege. In the future, counsel will provide a more generalized list that will satisfy such a specific request. While such a list of specific cases has been submitted to the auditors



Stirling
Behavioral Health Institute

(and is attached to this document), future activities, correspondence, and amount of time for work done by Counsel will be recorded and documented in the future.

11. Stirling will implement a process requiring all payroll expenditures be made only with supporting time cards or time reports.

Cost Report

Auditor's Statement

Auditor traced Stirling's FY 2007-08 Cost Report to its general ledger. Stirling's expenditures listed on its Cost Report reconciled to its accounting records. However, the Auditor believes Stirling overbilled DMH for unsupported and unallowable expenditures during FY 2007-08.

Auditor's recommendation

12. Stirling management ensures that the Agency's Cost Report contains allowable and supported expenditures.

Stirling's response to items above

12. By addressing and implementing the items above, Stirling's Cost Report should contain only allowable and supported expenditures in the future.